

GUARANTEE FOR A LOAN FROM THE COMMONWEALTH
DEVELOPMENT CORPORATION TO THE NATIONAL
HOUSING CORPORATION

The Commonwealth Development Corporation (C.D.C.) has offered a loan of £250,000 sterling to the National Housing Corporation (N.H.C.) for the construction of rental housing in Nairobi. The loan is for 20 years at an interest rate of 8¼% repayable in sterling in equated annual instalments, and is conditional on the Government giving a guarantee to repay the loan in the event of default by the National Housing Corporation. In accordance with the Loans (Guarantee) (Amendment) Act 1968, the approval of the House is sought for such a guarantee being given.

2. It has been agreed with the C.D.C. that the loan shall be used for the construction of 56 three-bedroom maisonettes and two houses of a high standard on a site lying between Lower Hill Road and Upper Hill Road, Nairobi. The total cost of this project will be K£274,000 of which the loan of £250,000 sterling will provide K£214,000. The balance of K£60,000 has been voted in Development Estimates 1967/68 Head D.17.

3. Construction of this project has already begun, and will be finished during the second half of 1969. The maisonettes will then be let at about £70 per month and this level of rent will enable N.H.C. to repay the loan and build up a reserve against possible future losses such as those which may be caused by a fall in the market for rental housing, or possible changes in the exchange rate between sterling and Kenya currency. The risks of such loans will be borne by N.H.C.

4. The C.D.C. also requires that during the period of the loan the N.H.C. will grant an equitable mortgage on the property

to C.D.C. as security for the loan. In the event that the C.D.C. has to invoke the Government guarantee the Government would also have the benefit of that security. In view of this and the continuing shortage of housing in Nairobi, the Government is confident that if the guarantee is given as proposed the risk of any charge falling on public funds is very small.

5. There continues to be a shortage of houses in Nairobi in the medium to high-cost range, and this is reflected in the high level of rents which is being charged in the open market for this type of accommodation. Such accommodation does not come within the scope of the Rent Restriction Act, and will continue to attract high rents until more housing in that price range is built. The N.H.C. is helping to reduce the shortage by undertaking such housing schemes. The financing of such projects by overseas loans is welcomed in order to release Government funds for low-cost housing, and because it is only in high-cost housing schemes that rents can be charged which will cover the high interest rates which are normal with such loans.

6. In accordance with the provisions of the Loans (Guarantee) (Amendment) Act 1968, the House is asked to approve the proposal that the Government guarantee repayment in annual equated instalments over a period of twenty years beginning on 31st December, 1969 with interest at the rate of $8\frac{3}{4}\%$ per annum of a loan of £250,000 sterling (K£214,000) to be made by the Commonwealth Development Corporation of London, England to the National Housing Corporation towards the cost of financing a housing scheme in the area of Lower Hill Road, Nairobi. If this guarantee is given the Government's total contingent liability under subsection (3) (a) of the Act will amount to K£12,284,255.